

Buena Vista Regional Medical Center
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2009 and 2008**

Together with Independent Auditor's Report

Buena Vista Regional Medical Center

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Buena Vista Regional Medical Center

Officials

June 30, 2009

Board of Trustees	Address	Term Expires
Glen Huntington, Chairman	Storm Lake, IA	2012
Edean Murray, Treasurer	Storm Lake, IA	2014
Rick Lampe, Secretary	Storm Lake, IA	2010
Rolf Mosbo	Rembrandt, IA	2014
Keith Movall	Newell, IA	2010
Randy Bobolz	Albert City, IA	2012
Brenda Halverson	Linn Grove, IA	2012

Hospital Officials	Address	Term Expires
Todd Hudspeth, CEO	Storm Lake, IA	Indefinite
Mike Dewerff, CFO	Storm Lake, IA	Indefinite

Independent Auditor's Report

To the Board of Trustees of
Buena Vista Regional Medical Center
Storm Lake, Iowa:

We have audited the basic financial statements of Buena Vista Regional Medical Center (Hospital), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buena Vista Regional Medical Center as of June 30, 2009 and 2008, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2009, on our consideration of the Hospital's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 8 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary information included in Exhibits 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
November 12, 2009.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2009, 2008, and 2007

This section of Buena Vista Regional Medical Center's (BVRMC) annual financial report presents background information and management's analysis of BVRMC's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$5,125,000 or 9.8%, primarily due to the financial results for the year ended June 30, 2009.
- During the year, BVRMC's total operating revenues increased approximately \$233,000 to \$34,443,000, or .1%, from the prior year while expenses increased \$1,221,000, or 3.9%, to \$32,167,000. BVRMC had a gain from operations of \$2,276,000 which is 6.6% of total operating revenue. This compares to the prior fiscal year's gain from operations of approximately \$3,264,000.
- BVRMC received \$350,000 in County tax subsidies during the year that were used to fund the expense of operating 5 ambulances located in Storm Lake, Sioux Rapids, and Albert City.
- During the fiscal year, BVRMC made capital investments for a total of approximately \$10,550,000. The following is a list of significant items:

Capital Investments	Department	2009 Cost
Construction in Progress	Surgery/Dietary Expansion	\$ 7,969,000
Radiology Equipment	Radiology	\$ 784,000
Construction in Progress	OB Department Remodel	\$ 450,000
Surgery Equipment	Surgery	\$ 311,000
Facility Updates	Plant Operations	\$ 164,000
Computer Hardware and Software	Various	\$ 86,000

The source of the funding for these projects was derived from operations, capital reserves, revenue bonds, and Foundation and Auxiliary fund-raising.

Required Financial Statements

- The basic financial statements of BVRMC report information about BVMRC using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities.
- The Balance Sheets include all of BVRMC's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to BVRMC creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of BVRMC, and assessing the liquidity and financial flexibility of BVRMC.
- All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in BVRMC's operations over the past 2 years and can be used to determine whether BVRMC has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about BVRMC's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of BVRMC

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about BVRMC's activities. These two statements report the net assets of BVRMC and changes in them. Increases or decreases in BVRMC's net assets are one indicator of whether its financial health is improving or deteriorating.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2009, 2008, and 2007

However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

Net Assets

A summary of BVRMC's balance sheets are presented in Table 1 below:

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total current assets	\$ 15,697,000	14,208,000	1,489,000	10
Net capital assets	24,093,000	19,793,000	4,300,000	22
Other assets, including Funded Depreciation	17,842,000	18,506,000	(664,000)	(4)
Total assets	<u>\$ 57,632,000</u>	<u>52,507,000</u>	<u>5,125,000</u>	10
Current liabilities	\$ 7,886,000	6,944,000	942,000	14
Long-term debt	6,023,000	5,171,000	852,000	16
Total liabilities	<u>13,909,000</u>	<u>12,115,000</u>	<u>1,794,000</u>	15
Net assets	<u>43,723,000</u>	<u>40,392,000</u>	<u>3,331,000</u>	8
Total liabilities and net assets	<u>\$ 57,632,000</u>	<u>52,507,000</u>	<u>5,125,000</u>	10

As can be seen in Table 1, total assets increased by \$5,125,000 to \$57,632,000 in fiscal year 2009, up from \$52,507,000 in fiscal year 2008. The most significant increase was in net capital assets, which reflects the continued \$7.5 million Surgery/Dietary Expansion project. The change in total net assets results primarily from operating results in the current year.

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of BVRMC's historical revenues and expenses for each of the fiscal years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:				
Net patient service revenue	\$ 33,083,000	33,059,000	24,000	--
Other	1,270,000	1,151,000	119,000	10
Net operating revenue	<u>34,353,000</u>	<u>34,210,000</u>	<u>143,000</u>	--
Expenses:				
Salaries and employee benefits	17,256,000	17,040,000	216,000	1
Professional fees	3,129,000	2,425,000	704,000	29
Supplies and other expenses	9,727,000	9,511,000	216,000	2
Depreciation and amortization	1,965,000	1,970,000	(5,000)	--
Total operating expenses	<u>32,077,000</u>	<u>30,946,000</u>	<u>1,131,000</u>	4
Operating income	2,276,000	3,264,000	(988,000)	(30)
Non-operating Income	<u>893,000</u>	<u>1,213,000</u>	<u>(320,000)</u>	(26)
Net income	3,169,000	4,477,000	(1,308,000)	(29)
Capital Grants and Contributions	162,000	90,000	72,000	80
Net assets – beginning of year	<u>40,392,000</u>	<u>35,825,000</u>	<u>4,567,000</u>	13
Net assets – end of year	<u>\$ 43,723,000</u>	<u>40,392,000</u>	<u>3,331,000</u>	8

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2009, 2008, and 2007

Sources of Revenue

Operating Revenue

During fiscal year 2009, BVRMC derived the majority, or 96.3%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in BVRMC's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes rental income, cafeteria sales, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2009 and 2008.

Table 3: Payor Mix by Percentage

	Year Ended June 30	
	2009	2008
Medicare	49.0%	52.0%
Medicaid	7.1	7.1
Wellmark	28.5	24.1
Other Commercial	12.0	13.6
Self-pay and other	3.3	3.2
Total patient revenues	<u>100.0%</u>	<u>100.0%</u>

Other Revenue

Other revenue includes rental income, cafeteria sales, fitness center income and other miscellaneous services.

Table 4: Other Revenue

	Year Ended June 30	
	2009	2008
Rental Income	\$ 291,000	282,000
Cafeteria/Vending	209,000	152,000
Rebates	161,000	222,000
Grants	151,000	171,000
Fitness Center	136,000	127,000
Contracted Services	182,000	60,000
Other	140,000	137,000
Total	<u>\$ 1,270,000</u>	<u>1,151,000</u>

Non-operating Income

Non-operating income includes investment income and county tax subsidies. BVRMC holds funds in its balance sheets that are invested primarily in money market funds, CD's, and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$549,000 during fiscal year 2009. BVRMC also received \$350,000 in county tax subsidy in fiscal year 2009.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2009, 2008, and 2007

Operating and Financial Performance

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2009 and 2008:

- Overall activity at BVRMC, as measured by patient admissions, decreased by 10.4% to 1,909 admissions in 2009, from 2,130 admissions in 2008. Patient days increased 10.2% from 9,606 in 2008 to 8,628 in 2009. Total Outpatient procedures in the Emergency, Surgery, Radiology, Laboratory, and Rehab Departments remained steady at 71,895 in 2009 compared to 72,123 in 2008.

Table 5: Patient and Hospital Statistical Data

	Year Ended June 30	
	2009	2008
Total Admissions:		
Acute	1,302	1,436
Newborn	259	319
Swing Bed	143	163
Hope Harbor	205	212
Total Days Care		
Acute	4,033	4,727
Newborn	550	671
Swing Bed	683	877
Hope Harbor	3,362	3,331
Average Daily Census		
Acute	11.1	12.9
Newborn	1.5	1.8
Swing Bed	1.9	2.4
Hope Harbor	9.2	9.1
Average Length of Stay		
Acute	3.1	3.3
Newborn	2.1	2.1
Swing Bed	4.8	5.4
Hope Harbor	16.4	15.7
Emergency Room Visits	7,954	8,153
Total Surgical Procedures	3,229	3,219
Total Radiology Procedures	17,180	14,786
Total Laboratory Procedures	86,879	89,522
Home Health Visits	7,069	5,806
Full-time equivalents (FTE's)	319.50	310.92

Total net patient service revenue remained relatively unchanged in 2009 at \$33,083,000.

Gross patient revenue increased \$2,300,000, or 4.3% from prior year primarily due to increased patient volume and rate increases, and net patient service revenue increased \$24,000 due to increases in gross patient revenue described above. Contractual adjustments as a percent of gross revenue increased slightly from 35.3% in 2008 to 37.1% in 2009.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2009, 2008, and 2007

Contractual Adjustments increased over prior year as described in the table below:

Table 6: Contractual Adjustments Summary

	Year Ended June 30	
	2009	2008
Medicare	\$ 12,478,000	12,586,000
Medicaid	1,559,000	1,697,000
Wellmark and other commercial	6,779,000	4,731,000
Other Adjustments and charity care	643,000	578,000
Total	\$ 21,459,000	19,592,000

Days in accounts receivable increased slightly from 55 days in fiscal year 2008 to 57 days in fiscal year 2009.

Salary expenses increased \$500,000 or 3.8% to \$13,822,000 in 2009 from \$13,322,000 in 2008. As a percentage of net patient service revenue, salary expense was 41.8% and 40.3% for the fiscal years ended June 2009 and 2008, respectively.

Employee benefit expense decreased \$284,000, or 7.6% from prior year primarily due to a decrease of \$140,000 in health insurance cost. Employee benefit expense represented 24.8% and 27.9% of salary expenses in fiscal years 2009 and 2008 respectively.

Supplies and other expense increased \$317,000, or 3.3% from prior year. As a percentage of net patient service revenue, supplies expense increased slightly to 29.6% in fiscal year 2009, from 28.7% in fiscal year 2008.

Professional fees and Purchased services increased \$704,000, or 29%, primarily due to a full year of a full-time contracted radiologist.

Depreciation remained steady at \$1,965,000 in 2009. Interest expense decreased \$10,000 to \$10,000 in 2009 from \$20,000 in 2008.

Total operating expenses increased by \$1,221,000, or 3.9%, for the year ended June 30, 2009 for the reasons discussed above.

Budgetary Highlights

The official county budget of BVRMC for the year ended June 30, 2009 was prepared on a modified accrual basis. BVRMC expenditures during 2009 and 2008 did not exceed amounts budgeted.

Actual expenditures were lower than the budget by \$5,805,000 due to lower than anticipated operating expenses. Actual revenues were lower than budgeted by \$5,122,000.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2009, 2008, and 2007

Capital Assets

During fiscal year 2009, BVRMC invested \$10,550,000 in a broad range of capital assets included in Table 7 below.

	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land and Land Improvements	\$ 1,759,000	1,551,000	208,000	13
Buildings and Fixed Equipment	28,555,000	24,640,000	3,915,000	16
Major Movable Equipment	<u>11,671,000</u>	<u>10,952,000</u>	<u>719,000</u>	7
Subtotal	41,985,000	37,143,000	4,842,000	13
Less: Accumulated Depreciation	<u>23,624,000</u>	<u>22,064,000</u>	<u>1,560,000</u>	7
Net Property, Plant, and Equipment	<u>\$ 18,361,000</u>	<u>15,079,000</u>	<u>3,282,000</u>	22
Construction in Progress	<u>\$ 5,732,000</u>	<u>4,714,000</u>	<u>1,018,000</u>	22

Net property, plant, and equipment has decreased as a result of annual depreciation expense exceeding the cost of new additions. BVRMC has enhanced existing facilities and upgraded surgery, radiology, labor and delivery, and computer equipment. The increase in Construction in Progress is due to construction costs for an expansion and remodel of the surgery and radiology services and remodeling of the OB department.

In Table 8, BVRMC's fiscal year 2010 capital budget projects spending up to \$3,100,000 for capital projects. These projects will be primarily financed through internal reserves, and fundraising. More information about BVRMC's capital assets is presented in the notes to the basic financial statements.

Table 8: Fiscal Year 2010 Capital Budget

Completion of Surgery and MRI Renovations	\$ 1,800,000
Computer Hardware and Software	944,000
Facility Improvements	140,000
All other Capital Additions	<u>216,000</u>
Total	<u>\$ 3,100,000</u>

Long-Term Debt (including Capital Leases)

At June 30, 2009, BVRMC had \$6,419,000 in short-term and long-term debt. This has increased \$833,000 from fiscal year 2008, as a result of an additional capital lease to fund the purchase of radiology equipment. More detailed information about BVRMC's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 11.1% of BVRMC's total assets at June 30, 2009.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2009, 2008, and 2007

Contacting BVRMC's Chief Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of BVRMC's finances and to demonstrate BVRMC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Mike Dewerff, CPA, FHFMA, MBA
Chief Financial Officer
Buena Vista Regional Medical Center
1525 W. 5th St.
Storm Lake, IA 50588
(712) 213-8603
dewerff.mike@bvrmc.org

Buena Vista Regional Medical Center

Balance Sheets

June 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents	\$ 5,389,617	4,753,323
Investments	2,404,250	2,138,957
Receivables -		
Patient, net of allowance for doubtful accounts of		
\$1,860,236 in 2009 and \$1,258,000 in 2008	5,127,731	4,980,639
Other receivables	176,299	208,612
Inventory	936,219	949,531
Prepaid expenses	252,137	153,579
Succeeding year property tax receivable	336,177	335,208
Internally designated assets	1,074,934	688,241
Total current assets	<u>15,697,364</u>	<u>14,208,090</u>
Assets limited as to use or restricted:		
Internally designated assets	18,384,900	17,663,874
Bond restricted funds	400,000	1,383,142
Donor restricted funds	64,664	76,531
	<u>18,849,564</u>	<u>19,123,547</u>
Less amount required to meet current obligations	<u>1,074,934</u>	<u>688,241</u>
Total assets limited as to use or restricted, net of current portion	<u>17,774,630</u>	<u>18,435,306</u>
Capital assets, net	<u>24,093,123</u>	<u>19,792,674</u>
Deferred financing costs	<u>66,896</u>	<u>70,845</u>
Total assets	<u>\$ 57,632,013</u>	<u>52,506,915</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 396,099	415,184
Accounts payable	1,922,306	1,577,685
Accrued salaries and vacation	1,374,836	1,544,568
Accrued health insurance	242,000	242,000
Payroll taxes withheld and other accrued expenses	304,175	276,727
Estimated third-party payor settlements	3,311,064	2,552,430
Deferred revenue for succeeding year property tax receivable	336,177	335,208
Total current liabilities	<u>7,886,657</u>	<u>6,943,802</u>
Long-term liabilities:		
Long term debt, net of current portion	<u>6,022,780</u>	<u>5,170,984</u>
Total liabilities	<u>13,909,437</u>	<u>12,114,786</u>
Net assets:		
Invested in capital assets, net of related debt	17,674,244	14,206,506
Restricted	64,664	76,531
Unrestricted	<u>25,983,668</u>	<u>26,109,092</u>
Total net assets	<u>43,722,576</u>	<u>40,392,129</u>
Total liabilities and net assets	<u>\$ 57,632,013</u>	<u>52,506,915</u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2009 and 2008

	2009	2008
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 34,640,761	34,206,417
Provision for bad debt	(1,557,427)	(1,147,564)
Net patient and service revenue	33,083,334	33,058,853
Other operating revenue	1,359,640	1,150,867
Total operating revenue	34,442,974	34,209,720
OPERATING EXPENSES:		
Salaries	13,821,935	13,321,890
Employee benefits	3,433,515	3,717,692
Purchased services and professional fees	3,128,983	2,425,396
Supplies	7,020,174	6,795,106
Other expenses	2,787,451	2,695,761
Depreciation and amortization	1,964,732	1,969,710
Interest	9,817	19,928
Total operating expenses	32,166,607	30,945,483
OPERATING INCOME	2,276,367	3,264,237
NONOPERATING REVENUES, NET:		
County tax revenues	349,732	349,132
Investment income	549,024	850,889
Noncapital grants and contributions	11,898	19,939
Loss on disposal of capital assets	(18,063)	(6,486)
Nonoperating revenues, net	892,591	1,213,474
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	3,168,958	4,477,711
CAPITAL GRANTS AND CONTRIBUTIONS	161,489	89,615
INCREASE IN NET ASSETS	3,330,447	4,567,326
NET ASSETS, beginning of year	40,392,129	35,824,803
NET ASSETS, end of year	\$ 43,722,576	40,392,129

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services and third party payors	\$ 33,694,876	33,143,904
Cash paid for employee salaries and benefits	(17,397,280)	(16,660,576)
Cash paid to suppliers and contractors	(13,264,738)	(11,830,513)
Other receipts and payments, net	1,391,953	1,316,382
Net cash provided by operating activities	4,424,811	5,969,197
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	349,732	349,132
Noncapital grants and contributions	11,898	19,939
Net cash provided by noncapital financing activities	361,630	369,071
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	161,489	89,615
Proceeds from issuance of long-term debt	--	5,090,000
Payments on capital lease obligations	(496,168)	(261,899)
Payments on long-term debt	(145,000)	--
Payments for financing costs	--	(72,973)
Interest payments	(9,817)	(19,928)
Purchase of property and equipment, net	(4,218,365)	(5,164,432)
Net cash used in capital and related financing activities	(4,707,861)	(339,617)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	549,024	850,889
(Deposits to) withdrawals from investments, net	(265,293)	1,965,220
(Deposits to) withdrawals from assets limited as to use or restricted, net	273,983	(9,458,777)
Net cash provided by (used in) investing activities	557,714	(6,642,668)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	636,294	(644,017)
CASH AND CASH EQUIVALENTS - Beginning of year	4,753,323	5,397,340
CASH AND CASH EQUIVALENTS - End of year	\$ 5,389,617	4,753,323
NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
The Hospital capitalized interest expense in the following amounts	276,432	158,597
The Hospital entered into capital lease obligations for new equipment in the following amounts	1,473,879	--

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,276,367	3,264,237
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	1,964,732	1,969,710
Interest expense included in operating expenses	9,817	19,928
(Increase) decrease in current assets -		
Receivables -		
Patients	(147,092)	(419,081)
Other	32,313	165,515
Inventories	13,312	(162,597)
Prepaid expenses	(98,558)	49,806
Increase (decrease) in current liabilities -		
Accounts payable	(242,884)	198,541
Accrued salaries, vacation, payroll taxes withheld and other	(141,830)	289,006
Accrued health insurance	--	90,000
Estimated third-party payor settlements	<u>758,634</u>	<u>504,132</u>
Net cash provided by operating activities	<u>\$ 4,424,811</u>	<u>5,969,197</u>

See notes to financial statements

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and a summary of significant accounting policies of Buena Vista Regional Medical Center (the Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Iowa Code and is governed by a seven member board of trustees elected for six year terms.

A. Reporting Entity

For financial reporting purposes, Buena Vista Regional Medical Center has included all the funds of the Hospital, specifically all assets, liabilities, revenue, and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Buena Vista Regional Medical Center has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. Basis of Presentation

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – This component of net assets result when constraints are placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of the two proceeding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

Buena Vista Regional Medical Center

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D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees or donor.

G. Patient Receivables, Net

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

I. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

J. Assets Limited as to Use or Restricted

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

By Hospital Revenue Bond Agreement – These funds are reserve funds held as security for the Series 2007 Hospital Revenue Bonds (Series 2007 bonds) and any unspent bond proceeds. These funds are used for the payment of principal and interest on the Series 2007 bonds when insufficient funds are available.

By Donor – These funds consist of contributed assets that have been restricted by the donor for specific capital improvements or operating activities.

K. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value as determined by quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions unless the income is restricted by donor or law.

L. Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided in the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements. Lives range by capital asset classification as follows:

Land improvements	5 to 20 years
Buildings and building improvements	3 to 40 years
Equipment, computers, and furniture	3 to 20 years

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restriction are reported when the donated or acquired long-lived assets are placed in service.

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Notes to Financial Statements June 30, 2009 and 2008

M. Deferred Financing Cost

Deferred financing costs related to the issuance of Series 2007 bonds are being amortized over the life of the related bonds under the straight line method. Amortization expense of \$3,949 and \$2,128 for the years ended June 30, 2009 and 2008, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net assets.

N. Compensated Absences

Hospital employees accumulate a limited amount of earned but unused Paid Time Off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount ranging from 252 hours to 420 hours based on length of service. PTO expense is accrued as an expense and a liability as it is earned. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009 and 2008, respectively.

O. Deferred Revenue

Although certain revenue is measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

P. Self-Insured Employee Health Benefits

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

Q. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Buena Vista, Iowa. As such, the Hospital is exempt from paying income taxes.

R. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge or per ambulatory payment classification, reimbursed costs, discounted charges, and per diem payments. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

S. Grants and Contributions

From time to time, the Hospital receives contributions from Buena Vista Regional Medical Center Foundation, as well as grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

T. Operating Revenue and Expenses

The Hospital's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with the provision of health care services – the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

U. Charity Care

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of these amounts determined to qualify as charity care, they are not reported in the statements of operations. Charges excluded from revenue under the Hospital's charity care policy were \$642,395 and \$578,243 for 2009 and 2008, respectively.

V. Impairment of Long-Lived Assets

The Hospital evaluates the recoverability of its long-lived assets, primarily fixed assets, in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144) "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets.

W. Insurance

The Hospital is commercially insured for property and casualty, general and professional liability and worker's compensation risks. The Hospital is self-insured under its employee group health program. Claims are charged to expense in the period in which they are incurred.

X. Subsequent Events

The Hospital considered events occurring through the report date for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash, Investments, and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2009 and 2008 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

The Hospital manages the following risks in accordance with their formal investment policy:

Credit Risk: The Hospital has invested in certificates of deposit and US Government Agencies securities. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

Interest Rate Risk: The Hospital has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the hospital within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days.

The weighted average duration of securities invested in US Government Agencies was 18 years as of June 30, 2009. The weighted average duration of securities invested in certificates of deposits was 4 months as of June 30, 2009.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2009 and 2008 is as follows:

	2009	2008
Investments (operating reserves):		
Cash and cash equivalents	\$ 62,221	83,858
Certificates of deposit	2,313,904	2,027,856
Interest receivable	28,125	27,243
Total investments	<u>\$ 2,404,250</u>	<u>2,138,957</u>
Assets limited as to use or restricted:		
By Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 6,064,137	6,993,708
Certificates of deposit	12,162,078	10,472,774
US government agencies	25,292	24,326
Interest receivable	133,393	173,066
	<u>18,384,900</u>	<u>17,663,874</u>
By Hospital Revenue Bond Agreement:		
Cash and cash equivalents	<u>400,000</u>	<u>1,383,142</u>
By Donor:		
Cash and cash equivalents	<u>64,664</u>	<u>76,531</u>
Total assets limited as to use or restricted	18,849,564	19,123,547
Less amounts required to meet current obligations	<u>1,074,934</u>	<u>688,241</u>
Long-term portion	<u>\$ 17,774,630</u>	<u>18,435,306</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 544,736	847,008
Change in unrealized gains, net	<u>4,288</u>	<u>3,881</u>
Total investment return	<u>\$ 549,024</u>	<u>850,889</u>

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrator Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrator Contractor through October 31, 2005.

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 12,775,680	13,142,994
Outpatient	37,012,264	34,121,269
Swingbed	832,250	1,030,206
Behavioral health	4,350,717	4,269,090
Hospice	<u>1,128,389</u>	<u>1,235,297</u>
Total gross patient service revenue	<u>56,099,300</u>	<u>53,798,856</u>
Contractual adjustments:		
Medicare	12,478,335	12,586,144
Medicaid	1,559,391	1,697,142
Other	6,778,418	4,730,910
Charity care services	<u>642,395</u>	<u>578,243</u>
Total contractual adjustments	<u>21,458,539</u>	<u>19,592,439</u>
Net patient service revenue before provision for bad debt	<u>\$ 34,640,761</u>	<u>34,206,417</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

The Hospital reports net patient services revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 49.5% and 7.4%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2009, and 52.0% and 7.1%, respectively, for the year ended June 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term, since various cost reporting periods have not been audited by the Administrator Contractor.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Patient accounts	\$ 9,934,967	8,676,639
Less estimated third-party contractual adjustments	(2,947,000)	(2,438,000)
Less allowance for doubtful accounts	<u>(1,860,236)</u>	<u>(1,258,000)</u>
	<u>\$ 5,127,731</u>	<u>4,980,639</u>

The Hospital grants credits without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	32%	35%
Medicaid	6	5
Commercial insurance	40	42
Patients and residents	<u>22</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

(5) Capital Assets

Capital assets and the related accumulated depreciation are summarized as follows:

	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets, not being depreciated,				
Land	\$ 577,398	--	--	577,398
Construction in progress	4,713,917	5,286,019	(4,267,996)	5,731,940
Total capital assets not being depreciated	5,291,315	5,286,019	(4,267,996)	6,309,338
Capital assets, being depreciated:				
Land improvements	973,264	207,985	--	1,181,249
Buildings	21,742,977	3,132,806	(9,553)	24,866,230
Fixed equipment	2,896,738	814,072	(21,815)	3,688,995
Major movable equipment	10,952,014	1,109,485	(390,290)	11,671,209
Total capital assets, being depreciated	36,564,993	5,264,348	(421,658)	41,407,683
Less accumulated depreciation:				
Land improvements	(526,170)	(59,607)	--	(585,777)
Buildings	(11,315,256)	(861,993)	3,177	(12,174,072)
Fixed equipment	(2,258,929)	(274,600)	16,218	(2,517,311)
Major movable equipment	(7,963,279)	(764,583)	381,124	(8,346,738)
Total accumulated depreciation	(22,063,634)	(1,960,783)	400,519	(23,623,898)
Total capital assets, being depreciated, net	14,501,359	3,303,565	(21,139)	17,783,785
Total capital assets, net	\$ 19,792,674	8,589,584	(4,289,135)	24,093,123
	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated,				
Land	\$ 528,068	49,330	--	577,398
Construction in progress	882,218	4,829,911	(998,212)	4,713,917
Total capital assets not being depreciated	1,410,286	4,879,241	(998,212)	5,291,315
Capital assets, being depreciated:				
Land improvements	767,353	205,911	--	973,264
Buildings	21,501,764	265,600	(24,387)	21,742,977
Fixed equipment	2,882,454	19,702.00	(5,418)	2,896,738
Major movable equipment	10,040,781	1,280,895	(369,662)	10,952,014
Total capital assets, being depreciated	35,192,352	1,772,108	(399,467)	36,564,993
Less accumulated depreciation:				
Land improvements	(470,528)	(55,642)	--	(526,170)
Buildings	(10,500,055)	(839,587)	24,386	(11,315,256)
Fixed equipment	(1,867,068)	(394,992)	3,131	(2,258,929)
Major movable equipment	(7,650,287)	(677,361)	364,369	(7,963,279)
Total accumulated depreciation	(20,487,938)	(1,967,582)	391,886	(22,063,634)
Total capital assets, being depreciated, net	14,704,414	(195,474)	(7,581)	14,501,359
Total capital assets, net	\$ 16,114,700	4,683,767	(1,005,793)	19,792,674

Total depreciation for the year ended June 30, 2009 and 2008, including depreciation on rental property owned by the Hospital, was \$1,960,783 and \$1,967,582, respectively.

During the fiscal year 2008, the Hospital began the relocation of the nutrition department to an area of the Hospital previously not constructed, and renovation of the previous nutrition space for the surgery department. The estimated cost of the construction and renovation is \$7,500,000 and is expected to be completed in early 2010. The project is financed with \$5,090,000 in revenue bonds with the difference financed with operations.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

The Hospital is also in the process of remodeling their existing observation and surgery departments for an estimated cost of \$650,000. The Hospital intends to fund the remodel from operations. The Hospital is also in the process of a parking lot addition for an estimated cost of \$200,000. The Hospital intends to fund the paving project from operations.

(6) Long-Term Debt

Capital lease obligations activity of the Hospital as of June 30, 2009 and 2008 consisted of the following:

	<u>June 30, 2008</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
Series 2007 hospital revenue bonds (A)	\$ 5,090,000	--	(145,000)	4,945,000	170,000
Capital lease obligation (B)	496,168	--	(496,168)	--	--
Capital lease obligation (C)	--	1,473,879	--	1,473,879	226,099
	<u>\$ 758,067</u>	<u>1,473,879</u>	<u>(641,168)</u>	<u>6,418,879</u>	<u>396,099</u>
	<u>June 30, 2007</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
Series 2007 hospital revenue bonds (A)	\$ --	5,090,000	--	5,090,000	145,000
Capital lease obligation (B)	758,067	--	(261,899)	496,168	270,184
	<u>\$ 758,067</u>	<u>5,090,000</u>	<u>(261,899)</u>	<u>5,586,168</u>	<u>415,184</u>

- (A) The Medical Center issued \$5,090,000 of Series 2007 Hospital Revenue Bonds. The proceeds of these bonds were used to pay construction and renovation costs. The Series 2007 bonds bear interest at rates ranging from 3.85% to 4.90% payable semi-annually. Annual principal payments are due in amounts ranging from \$170,000 to \$380,000 through December 1, 2027.
- (B) Capital lease obligation at 3.12% interest, payable in monthly installments of \$23,485, collateralized by leased equipment.
- (C) Capital lease obligation at 2.46% interest, payable in quarterly installments of \$66,500 through April 2015, collateralized by leased equipment.

Scheduled principal and interest repayments on long-term debt obligation are as follows:

<u>Year</u>	<u>Long-Term Debt</u>	<u>Capital Lease Obligation</u>
2010	170,000	266,002
2011	180,000	266,002
2012	185,000	266,002
2013	195,000	266,002
2014	200,000	266,002
2015 – 2019	1,150,000	266,002
2020 – 2024	1,435,000	--
2025 – 2028	1,430,000	--
	<u>\$ 4,945,000</u>	1,596,012
Less amount representing interest under capital lease obligations		<u>122,133</u>
		<u>\$ 1,473,879</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

Assets recorded under capital leases consist of fixed and major moveable equipment items and building components with totals as follows:

	<u>2009</u>	<u>2008</u>
Cost	\$ 2,082,641	1,580,666
Less: Accumulated amortization	<u>(1,703,360)</u>	<u>(1,384,406)</u>
Net book value	<u>\$ 379,281</u>	<u>196,260</u>

(7) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the Hospital is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2009 and 2008 were \$870,287 and \$777,485, respectively.

(8) Affiliated Organization

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salaries and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Until January 1, 2005, the Hospital was in an agreement with Iowa Health Systems (IHS) with similar stipulations to the Trinity agreement in addition to sharing the results of operations of the Hospital based on predetermined percentages of the operating income or loss of the Hospital, as defined in the agreement. Below is a list of year end balances and transactions between the Hospital and these affiliates for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Fees to affiliate for personnel and services	<u>\$ 237,996</u>	<u>215,328</u>

(9) Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore, no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the three years ended June 30, 2009.

(10) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(11) Foundation

Buena Vista Regional Medical Center Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB Statement 39.

A summary of the Foundation's assets, liabilities and fund balance, based on a modified cash basis, as of June 30, 2009 and 2008 follows:

	(Unaudited)	
	2009	2008
Assets	\$ 1,486,783	1,256,171
Net assets	\$ 1,375,753	1,233,992

The Hospital received \$161,489 and \$89,615 from the Foundation during the year ended June 30, 2009 and 2008, respectively, for the purchase of property and equipment. As of June 30, 2009, the Foundation has no pledges receivable related to Hospital projects.

(12) Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claim in excess of the limits. At June 30, 2009 and 2008, the Hospital has accumulated funds in excess of actual claims paid of \$460,173 and \$99,733, respectively. These funds, shown under cash, are to be used to pay claims as they are filed in the future. The amount of unpaid claims at June 30, 2009 and 2008 was \$242,000.

(13) Physician Recruitment

The Hospital has made physician income guarantee agreements as well as various recruitment and relocation advances to recruit needed physicians to the community of Storm Lake, Iowa. All monies advanced under these agreements will be forgiven over a two to three year period in which the physicians practice in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

The following illustrates amounts advanced under these agreements and applicable amortization expense for 2009 and 2008:

	2009	2008
Recruitment and relocation advances -		
Beginning of year	\$ 149,504	240,899
Advances	592	42,179
Interest applied	--	5,863
Amortization	(128,176)	(139,437)
End of Year	\$ 21,920	149,504

Recruitment and relocation advances are included with other receivables in the balance sheet.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2009 and 2008

(14) Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters are adequately reserved for and will be resolved without material adverse effect on the Hospital's financial position or results from operations.

Buena Vista Regional Medical Center

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis)

For the Year Ended June 30, 2009

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable
Amount raised by taxation	\$ 349,732	--	349,732	335,207	14,525
Estimated other revenues / receipts	35,147,322	167,874	35,315,196	40,436,745	(5,121,549)
Expenses / Disbursements	<u>32,166,607</u>	<u>2,870,717</u>	<u>35,037,324</u>	<u>40,842,000</u>	<u>5,804,676</u>
Net	3,330,447	(2,702,843)	627,604	(70,048)	\$ <u>697,652</u>
Balance beginning of year	<u>40,392,129</u>	<u>(14,376,302)</u>	<u>26,015,827</u>	<u>26,686,707</u>	
Balance end of year	\$ <u>43,722,576</u>	<u>(17,079,145)</u>	<u>26,643,431</u>	<u>26,616,659</u>	

Notes to the required supplementary information – Budgetary reporting:

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Buena Vista Regional Medical Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2009, the Hospital's expenditures did not exceed the amount budgeted.

Schedules of Patient Service Revenue For the Years Ended June 30, 2009 and 2008

	2009						2008					
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
DAILY PATIENT SERVICES:												
Medical and surgical	\$ 1,813,992	122,881	--	--	38,077	1,974,950	1,937,982	118,791	--	--	89,660	2,146,433
Obstetric	971,462	--	--	--	--	971,462	1,195,358	--	--	--	--	1,195,358
Behavioral health	--	--	--	3,193,900	--	3,193,900	--	--	--	3,082,687	--	3,082,687
Swing Bed	--	--	186,766	--	--	186,766	--	--	256,965	--	--	256,965
Coronary care	457,075	--	--	--	--	457,075	514,094	--	--	--	--	514,094
Hospice	--	--	--	--	1,004,019	1,004,019	--	--	--	--	889,095	889,095
	<u>3,242,529</u>	<u>122,881</u>	<u>186,766</u>	<u>3,193,900</u>	<u>1,042,096</u>	<u>7,788,172</u>	<u>3,647,434</u>	<u>118,791</u>	<u>256,965</u>	<u>3,082,687</u>	<u>978,755</u>	<u>8,084,632</u>
OTHER NURSING SERVICES:												
Maternal child care	--	9,765	--	--	--	9,765	--	12,282	--	--	--	12,282
Operating and recovery room	3,951,941	5,188,729	--	--	--	9,140,670	3,485,268	4,865,649	2,258	--	--	8,353,175
Delivery and labor room	--	157,977	--	--	--	157,977	--	176,720	--	--	--	176,720
Medical and surgical supplies	275,705	356,990	2,861	65	364	635,985	236,133	288,718	5,593	75	2,642	533,161
Emergency services	16,781	2,407,557	--	545	--	2,424,883	25,871	2,308,450	--	1,161	--	2,335,482
Outpatient service	98,685	1,990,179	7,270	6,039	1,089	2,103,262	126,630	1,758,457	12,945	8,888	1,248	1,908,168
Homecare	--	400,461	--	--	--	400,461	--	298,211	--	--	--	298,211
Private duty nursing	--	56,096	--	--	--	56,096	--	48,868	--	--	--	48,868
Cardiac Rehabilitation	--	143,586	--	--	--	143,586	--	112,020	--	--	--	112,020
	<u>4,343,112</u>	<u>10,711,340</u>	<u>10,131</u>	<u>6,649</u>	<u>1,453</u>	<u>15,072,685</u>	<u>3,873,902</u>	<u>9,869,375</u>	<u>20,796</u>	<u>10,124</u>	<u>3,890</u>	<u>13,778,087</u>
OTHER PROFESSIONAL SERVICES:												
Anesthesiology	223,240	588,655	--	--	--	811,895	172,988	563,557	--	--	--	736,545
Radiology	100,429	3,254,755	7,176	11,669	266	3,374,295	112,270	1,994,205	7,119	14,437	2,238	2,130,269
Ultrasound	195,582	912,922	3,955	--	286	1,112,745	206,184	850,781	2,964	278	1,218	1,061,425
Nuclear medicine	70,161	1,487,609	1,590	--	--	1,559,360	58,692	1,341,666	1,742	--	--	1,402,100
CT scans	229,732	1,823,930	6,308	2,498	--	2,062,468	200,329	1,817,704	7,863	4,113	1,150	2,031,159
Laboratory	748,202	2,460,965	52,104	216,887	3,019	3,481,177	864,853	2,281,816	71,210	189,382	9,978	3,417,239
Blood administration	133,094	104,025	9,449	2,099	--	248,667	134,450	96,959	8,825	664	1,992	242,890
Pharmacy	1,845,557	9,564,417	219,492	808,411	48,446	12,486,323	1,991,715	9,473,330	290,608	805,079	180,407	12,741,139
Electrocardiology	106,233	446,935	1,827	9,723	138	564,856	102,511	429,774	1,434	13,378	(382)	546,715
Electroencephalography	4,013	522,923	--	--	--	526,936	4,155	492,763	--	--	--	496,918
Physical therapy	145,809	1,108,417	84,321	14,982	598	1,354,127	128,883	1,086,805	77,117	22,919	2,690	1,318,414
Respiratory therapy	1,214,851	80,333	209,566	75,260	30,758	1,610,768	1,449,597	93,539	242,311	116,039	50,333	1,951,819
Ambulance	96,357	885,316	374	2,404	1,329	985,780	111,649	773,821	2,227	4,020	2,238	893,955
ER Physicians	5,372	1,534,229	--	488	--	1,540,089	11,351	1,383,337	--	712	--	1,395,400
Cardiopulmonary	12,122	177,390	97	1,552	--	191,161	19,710	219,356	1,121	1,410	--	241,597
Occupational therapy	47,418	374,741	35,591	702	--	458,452	38,782	417,221	31,938	1,048	369	489,358
Speech therapy	11,235	30,184	3,503	3,493	--	48,415	12,447	24,212	5,966	2,800	421	45,846
Oncology	578	761,542	--	--	--	762,120	1,092	737,356	--	--	--	738,448
Dietary	--	6,227	--	--	--	6,227	--	1,077	--	--	--	1,077
Diabetic education	54	52,296	--	--	--	52,350	--	53,824	--	--	--	53,824
Infection Control	--	232	--	--	--	232	--	--	--	--	--	--
	<u>5,190,039</u>	<u>26,178,043</u>	<u>635,353</u>	<u>1,150,168</u>	<u>84,840</u>	<u>33,238,443</u>	<u>5,621,658</u>	<u>24,133,103</u>	<u>752,445</u>	<u>1,176,279</u>	<u>252,652</u>	<u>31,936,137</u>
Gross patient service revenue	\$ <u>12,775,680</u>	<u>37,012,264</u>	<u>832,250</u>	<u>4,350,717</u>	<u>1,128,389</u>	<u>56,099,300</u>	<u>13,142,994</u>	<u>34,121,269</u>	<u>1,030,206</u>	<u>4,269,090</u>	<u>1,235,297</u>	<u>53,798,856</u>
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(20,816,144)						(19,014,196)
Charity care services and other discounts, based on charges forgone						(642,395)						(578,243)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						34,640,761						34,206,417
Provision for bad debt						(1,557,427)						(1,147,564)
NET PATIENT SERVICE REVENUE						<u>33,083,334</u>						<u>33,058,853</u>

Other Operating Revenue

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 301,517	148,411
Rental income	291,007	281,560
School nurse	182,177	60,205
Purchasing rebates	161,076	221,918
Grants	151,230	170,706
Fitness center	135,925	126,930
Lifeline	70,993	61,065
Coffee shop	29,791	31,318
Miscellaneous	22,733	28,540
Meals on wheels	5,630	13,356
Contracted revenue	4,613	3,850
Vending machines	2,948	3,008
	<u>\$ 1,359,640</u>	<u>1,150,867</u>

Buena Vista Regional Medical Center

Exhibit 3

Departmental Expenses For the Years Ended June 30, 2009 and 2008

	2009				2008			
	Salaries and Wages	Professional Fees and Purchased	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Nursing Administration	\$ 122,338	--	40,506	162,844	124,706	--	40,070	164,776
Medical and Surgical	1,447,485	--	467,002	1,914,487	1,443,848	--	494,356	1,938,204
Obstetric	775,429	550	406,790	1,182,769	751,812	550	443,117	1,195,479
Behavioral Health	804,330	113,897	255,086	1,173,313	779,204	104,853	271,978	1,156,035
Coronary Care	348,929	--	112,905	461,834	369,926	--	124,727	494,653
Hospice	281,752	15,812	192,132	489,696	260,591	25,444	246,147	532,182
Operating and Recovery Room	477,559	2,400	782,084	1,262,043	437,388	2,400	805,769	1,245,557
Medical and Surgical Supplies	71,323	--	999,488	1,070,811	59,527	--	840,766	900,293
Emergency Services	1,079,511	--	395,730	1,475,241	921,159	250	343,233	1,264,642
Outpatient Services	596,515	1,115	345,880	943,510	564,299	1,922	316,941	883,162
Homecare	410,575	--	168,494	579,069	366,488	--	142,594	509,082
Private Duty Nurses	35,885	--	19,932	55,817	39,017	--	19,672	58,689
Substance Abuse	--	--	--	--	339	--	(537)	(198)
Cardiac Rehabilitation	111,178	--	38,392	149,570	104,184	--	40,687	144,871
Lifeline	3,811	--	50,365	54,176	4,281	--	42,842	47,123
School	158,356	--	44,004	202,360	46,274	--	13,926	60,200
	6,724,976	133,774	4,318,790	11,177,540	6,273,043	135,419	4,186,288	10,594,750
OTHER PROFESSIONAL SERVICES:								
Anesthesiology	--	--	48,577	48,577	--	--	55,875	55,875
Radiology	708,936	765,204	529,877	2,004,017	710,684	333,327	557,112	1,601,123
Ultrasound	--	7,110	29,246	36,356	--	9,540	36,380	45,920
Nuclear Medicine	--	321,887	77,681	399,568	--	298,037	96,206	394,243
CT Scans	--	--	88,377	88,377	--	--	84,870	84,870
Laboratory	601,212	207,824	508,525	1,317,561	573,233	196,584	485,904	1,255,721
Blood Administration	--	--	15,191	15,191	--	--	131,633	131,633
Pharmacy	323,687	--	3,060,156	3,383,843	258,527	--	3,205,419	3,463,946
Electrocardiology	38,629	14,720	27,524	80,873	51,022	17,015	28,484	96,521
Electroencephalography	70,691	--	36,346	107,037	73,123	--	40,523	113,646
Physical Therapy	516,737	150,591	177,498	844,826	511,746	80,039	214,729	806,514
Respiratory Therapy	210,579	--	15,960	362,539	225,900	--	144,235	370,135
Ambulance	83,726	--	94,559	178,285	90,627	--	98,074	188,701
ER Physicians	--	1,110,356	7,487	1,117,843	--	913,624	6,675	920,299
Cardiopulmonary	31,972	--	20,838	52,810	30,998	--	18,996	49,994
Occupational Therapy	160,780	11,104	54,738	226,622	193,892	3,944	64,805	262,641
Speech Therapy	560	25,009	153	25,722	515	24,922	155	25,592
Oncology	377,419	--	133,592	511,011	338,140	--	131,939	470,079
Fitness Center	172,739	--	89,367	262,106	152,096	--	95,928	248,024
Medical Records	324,999	--	245,126	570,125	322,665	--	249,305	571,970
Specialty Clinics	51,170	--	51,046	102,216	50,258	--	43,603	93,861
Women's Center	97,615	--	35,646	133,261	93,532	--	37,864	131,396
Diabetic education	83,331	--	30,074	113,405	89,422	--	33,822	123,244
Infection control	131,580	--	73,482	205,062	110,709	--	40,860	151,569
	3,986,362	2,613,805	5,723,793	12,323,960	3,877,089	1,877,032	5,903,396	11,657,517
GENERAL SERVICES:								
Dietary	417,088	--	516,449	933,537	335,959	--	331,714	667,673
Plant	264,728	--	611,859	876,587	238,144	--	641,355	879,499
Housekeeping	421,417	--	164,388	585,805	411,294	--	164,524	575,818
Laundry and Linen	43	--	100,771	100,814	165	--	107,008	107,173
	1,103,276	--	1,393,467	2,496,743	985,562	--	1,244,601	2,230,163
ADMINISTRATIVE SERVICES:	2,007,321	381,404	1,628,460	4,017,185	2,186,196	412,945	1,683,574	4,282,715
NONDEPARTMENTAL:								
Depreciation and Amortization	--	--	1,964,732	1,964,732	--	--	1,969,710	1,969,710
Insurance	--	--	176,630	176,630	--	--	190,700	190,700
Interest	--	--	9,817	9,817	--	--	19,928	19,928
	--	--	2,151,179	2,151,179	--	--	2,180,338	2,180,338
TOTAL EXPENSES	\$ 13,821,935	3,128,983	15,215,689	32,166,607	13,321,890	2,425,396	15,198,197	30,945,483

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2009 and 2008

ANALYSIS OF AGING:

Days Since Discharge	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0 - 60	\$ 7,174,334	72.21 %	6,431,132	74.12 %
61 - 120	1,290,183	12.99	1,200,067	13.83
121 - 180	685,097	6.90	516,809	5.96
181 - and over	<u>785,353</u>	<u>7.90</u>	<u>528,631</u>	<u>6.09</u>
	9,934,967	100.00 %	8,676,639	100.00 %
Less:				
Allowance for doubtful accounts	(1,860,236)		(1,258,000)	
Allowance for contractual adjustments	<u>(2,947,000)</u>		<u>(2,438,000)</u>	
	<u>\$ 5,127,731</u>		<u>4,980,639</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 1,258,000	1,000,000
Provision of uncollectible accounts	1,557,427	1,147,564
Recoveries of accounts previously written off	342,449	322,433
Accounts written off	<u>(1,297,640)</u>	<u>(1,211,997)</u>
Balance, end of year	<u>\$ 1,860,236</u>	<u>1,258,000</u>

Inventory / Prepaid Expenses
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
INVENTORY:		
Pharmacy	\$ 295,304	339,836
Central service	277,606	278,608
Surgery	<u>363,309</u>	<u>331,087</u>
	<u>\$ 936,219</u>	<u>949,531</u>
 PREPAID EXPENSES:		
Insurance	\$ 48,975	23,520
Service contracts	113,492	63,782
Dues	46,064	28,693
Other	<u>43,606</u>	<u>37,584</u>
	<u>\$ 252,137</u>	<u>153,579</u>

Financial Statistical Highlights
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Patient days:		
Hospital -		
Adult and pediatric	4,033	4,727
Newborn	550	671
Swing bed - skilled	683	877
Hope Harbor	<u>3,362</u>	<u>3,331</u>
	<u>8,628</u>	<u>9,606</u>
Discharges:		
Hospital adult and pediatric	<u>1,296</u>	<u>1,432</u>
Average length of stay:		
Hospital adult and pediatric	3.11	3.30
Observation visits	276	352
Surgical procedures	3,229	3,219
Emergency Room visits	7,954	8,153
Full-time equivalents personnel	319.53	310.92

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Trustees of
Buena Vista Regional Medical Center
Storm Lake, Iowa:

We have audited the financial statements of Buena Vista Regional Medical Center (Hospital), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item II-A-09 to be a significant deficiency in internal control over financial reporting:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the item described above as item II-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comment, item II-A-08, has not been resolved.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Buena Vista Regional Medical Center, and other parties to whom Buena Vista Regional Medical Center may report. This report is not intended to and should not be used by anyone other than those specified parties.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
November 12, 2009.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2009

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. One material weakness and one significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance

No matters were reported.

Material Weakness

II-A-09

<i>Criteria:</i>	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
<i>Condition:</i>	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
<i>Effect:</i>	Audit entries were required to adjust the net realizable value of accounts receivable.
<i>Cause:</i>	Allowance balances requiring estimation and judgment were incorrectly recorded.
<i>Recommendation:</i>	The Hospital should review and revise its estimation process of the stated allowance account to ensure that financial statements are properly stated.
<i>Response:</i>	The Hospital concurs with the recommendation.
<i>Conclusion:</i>	Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-09

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2009.

III-B-09

Certified Budget: Hospital disbursements during the year ended June 30, 2009, did not exceed budgeted amounts.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2009

III-C-09

Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of the public purpose as defined in the attorney General's opinion dated March 12, 1975. The expense was as follows:

Paid To	Purpose	Amount
Various organizations	Employee recognition banquet	\$15,871

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Hospital feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

III-D-09

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-09

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-09

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-09

Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

Buena Vista Regional Medical Center

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2009

Finding	Status	Corrective Action Plan or Other Explanation
II-A-08	Allowance estimation and review process	Unresolved, similar finding reported at II-A-09

Buena Vista Regional Medical Center

Audit Staff

For the Year Ended June 30, 2009

This audit was performed by:

- Brian D. Green, FHFMA, CPA, Partner
- Jeremy J. Behrens, CHFP, CPA, Manager
- Becky S. Hoffman, Staff Auditor
- Brandon W. Arp, Staff Auditor